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Borrowing BLUES

Chains working within
the tight credit market
learn it's no longer
business as usual.

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Restaurant customers value food quality above all, but value's importance is growing.



According to *R&I's Consumers' Choice in Chains*, food quality is the most important attribute that drives customers' decisions on where to eat.

It's the food, stupid. It's also the cleanliness, value, service and menu variety, as *Restaurants & Institutions' Consumers' Choice in Chains* reveals in detail. The annual research not only shows which chains consumers visit most often and rate the highest, it also reveals what makes up those dining decisions.

It's no surprise that food quality is the

most important attribute to customers when deciding where to eat out. On a scale of 1 to 5, it receives a 4.42. Cleanliness is next on the list at 4.28, followed by value (4.22), service (4.12), menu variety (3.99), convenience (3.96), reputation (3.87) and atmosphere (3.67).

Over time, the importance of many of the attributes has grown. The only attributes that have remained constant over the past five years are food quality and cleanliness. The most significant change is in value: in 2004 it rated 4.12; in 2008 it increased to 4.22.

DEMOGRAPHIC DIFFERENCES

Women place greater stock on all of the attributes than men, though both sexes' top attributes are the same: food quality, cleanliness and value. But their choice of top chains for serving those attributes are not the same. Women's top chain for food quality was The Cheesecake Factory; for cleanliness, Dave & Buster's; and for value, In-N-Out Burger. Men chose Carrabba's Italian Grill for food quality and cleanliness, and Papa Murphy's Take 'N' Bake Pizza for value.

All of the age groups name food quality as their top priority. Gen Y, those 26 and under, tend to stress menu variety, reputation and atmosphere less so than cleanliness, value and service. Gen Y's top

rankings went to The Cheesecake Factory in the menu variety category, In-N-Out Burger for reputation, and Carrabba's for atmosphere.

Matures, those 61 and older, are mostly concerned with food quality and cleanliness, scoring McAlister's Deli the best in food quality and Culver's tops in cleanliness. ■

AND THE WINNERS ARE

Restaurants & Institutions surveys consumers annually about awareness and patronage of restaurant chains. The 3,132 respondents provided information on more than 200 concepts.

BY SEGMENT

Segment	Concept	Overall Score
Overall	Carrabba's Italian Grill	76.3
Burgers	In-N-Out Burger	70.1
Cafeteria/buffet	Souplantation/ Sweet Tomatoes	68.8
Casual dining	The Cheesecake Factory	75.9
Chicken	Chick-fil-A	67.2
Coffee/snacks	Starbucks	66.2
Family dining	Cracker Barrel	72.5
Italian	Carrabba's Italian Grill	76.3
Mexican	On the Border	64.5
Pizza	Papa Murphy's	72.8
Sandwich	Panera Bread	70.8
Seafood	Bonefish Grill	72.3
Steakhouse	LongHorn Steakhouse	70.6
Treats	Jamba Juice	68.3

BY ATTRIBUTE

Attribute	Concept	Percentage
Atmosphere	Mimis Café	83%
Cleanliness	Bonefish Grill	86%
Convenience	Starbucks	71%
Food quality	Carrabba's Italian Grill	85%
Menu variety	The Cheesecake Factory	87%
Reputation	The Cheesecake Factory	88%
Service	Carrabba's Italian Grill	83%
Value	Papa Murphy's	78%

Source: *R&I's Consumers' Choice in Chains*, 2008; overall score is an index; percentages for each attribute represent respondents who rated the chain a 4 or 5 on a scale of a low 1 to 5

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roundup



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Borrowing BLUES

With credit markets tightening as a result of the current financial crisis, franchisors and franchisees of growing concepts will likely have trouble meeting their development agreements. Those who can find willing lenders will be required to put up more equity—and more information—to get a loan.

By David Farkas



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To promote its new name and brand, Popeyes Louisiana Kitchen has launched TV commercials that emphasize its fast-food know-how and Louisiana heritage.

By Margaret Littman

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Seattle-based Organic To Go has expanded its menu of “clean” American comfort foods with items like chicken pot pie and vegetarian chili to boost its catering and cafe businesses.

By Monica Rogers

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Affordable Luxury

Mazzio's kept rising building and commodity costs and slumping casual-dining sales in mind when it developed Oliveto, its new full-service Italian bistro. The decor includes both value and luxurious touches such as a stained-concrete floor, simple lighting fixtures and granite-topped communal tables.

By Lisa Bertagnoli

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Social Skills

Krystal's interactive strategy involves using its Web sites, micro-sites and social-networking sites to get customers talking more about its food rather than the brand itself.

By David Farkas

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Watch and Learn

The digital video surveillance system at Lime Fresh Mexican Grill has helped the company improve both operations and loss prevention—crucial as fast-casual upstart embarks on expansion this year.

By Maya Norris

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Made to Order

Church's Chicken has added a module to its Internet-based supply-chain system that automates invoice entry, saving time at the store and mistakes at the distributor.

By Mary Boltz Chapman



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- Subway's Independent Purchasing Cooperative uses its supply-chain technology to monitor food quality
- New FDIC rules apply to risky sweep accounts
- Investor Roger Lipton's perspective of the financial crisis on valuations
- Chick-fil-A attracts fans with an online video contest
- Fast-casual chains are resilient but not resistant to the economy
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- Industry veteran Dick Holbrook on how to buy a restaurant company

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- Charlie Morrison implements a turnaround strategy at Pizza Inn
- Brad Haley talks about CKE's big burgers and edgy commercials
- James Flynn shares how Wingstop keeps growing sales

HOW TO GROW TO 100 UNITS

- Restaurant consultant Kevin Moll on what to outsource
- Jim Parish of Parish Partners on preparing a concept for sale
- Harry Bond of Monical's Pizza offers tips for retaining managers

PLUS

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Welcoming Intolerance

Restaurant chains such as Red Robin and Biaggi's are cultivating a loyal base of customers with food allergies by offering allergen-free menus, providing information about those menus on their Web sites, and training staff to accommodate their needs.

By Mary Boltz Chapman

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Share and Share Alike

There were six kids in my family, and we had to share a lot. It was the '70s, and nobody had extra money, especially big families. We wore hand-me-downs and often the same blouse or skirt a sister wore the week before. We took turns, played board games in teams, and our brothers' GI Joes dated our Barbies. When the Volkswagen Bus broke down, we all shared the small space of the Beetle.

We didn't always share well. But with the big things, and in the hard times, we got by with the help of each other.

Maybe it's a stretch to segue from my childhood to working in chains today. But one thing is for sure: We don't always share well.

Why should we? Competition is brutal, with chains grabbing onto customers and

force, and eco-friendly practices like saving energy and reducing waste.

LET'S GET TOGETHER

We have some great pockets of sharing in the industry; for example, at conferences. As we're finishing up this issue of *Chain Leader*, we're also getting last-minute details together for *Chain Leader LIVE*.

We see a lot of the same people at conferences. It's not that they have a whole lot of time on their hands. It's that they value the information they get from formal sessions and cocktail parties. Maybe they're not sharing news about a hot, new limited-time offer. But they're willing to share how they're looking into some lower-cost proteins to balance some pricing pressures.

Our Driving Traffic research revealed that the industry's suppliers are offering fewer promotions, menu-development ideas and programs to fewer chains, presumably focusing on their top customers. Conferences are a great place to get to know your supplier partners on a different level so they think of you when they have such helpful programs to offer.

ASK FOR HELP

When an alcoholic reaches bottom, the first step toward recovery is admitting there is a problem and getting help. And much of that help comes in the form of meeting with other people who have the same problem and swapping ideas for getting through it.

I don't know what "reaching bottom" means to you. But I do know that consumers are changing the way they use restaurants and how they define value. And that for at least the time being, most of our money is going to have to come the hard way—from earning it rather than from borrowing it. Someone in that support group just might have an answer or two.

A high tide raises all boats. And couldn't we all use a bit of raising? ■

As consumers pull back on spending and dine out less often, maybe now is the best time to share best practices.

share however they can. But maybe this scary time is exactly when we need to share information and best practices.

Especially on things that aren't competitive differentiators. When I spoke to Anne Munoz-Furlong, the founder and CEO of the Food Allergy and Anaphylaxis Network, I asked her about how chains can start a food-allergy program. She said they should ask their colleagues.

It's one of those areas where any improvement is good for all, just as any crisis is bad for all.

Others are food safety, recruiting and retaining a quality work

BIG ideas

"None of us is as smart as all of us."

—Ken Blanchard

"If you have an apple and I have an apple and we exchange these apples, then you and I will still each have one apple. But if you have an idea and I have an idea and we exchange these ideas, then each of us will have two ideas."

—George Bernard Shaw

"People who work together will win, whether it be against complex football defenses or the problems of modern society."

—Vince Lombardi

"We must all hang together or assuredly we shall all hang separately."

—Benjamin Franklin

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Diverse boards of directors are easier to come by but costlier.

Choose WISELY

The lingering effects of Sarbanes-Oxley legislation, which addressed corporate governance, has both swelled board-of-director compensation and trimmed the number of boards individuals can join. Still, says board specialist Jeremy Banoff, managing director for Chicago-based management advisers FPL Associates, "What is interesting about recruiting board members these days is that the pool is limitless."

Just how limitless is the board pool?

Companies still want diversification, whether it's among men and women, ethnicities, or race. But even that aside, it's really good to have everyone sharing different ideas from different places. What's working over here, what's working over there? When you think about recruiting and compensating executives, companies are not just competing within their industries. There are virtually no boundaries. That said, it certainly helps to have industry-specific experience on your board, too.

Have you seen anyone go out on a limb in terms of board members?

Not too far out, but when I was working with a real-estate company, the CEO of NutriSystem was on the board. You might ask, "What was he doing there?" But he was voted CEO of the year by a business magazine. That was attractive. Nowadays companies want that diversification and people who are really successful. That's one of the main criteria.

What kinds of advice are companies looking for today about picking board members?

Boards are interested in making sure they are staying within market standards. The difficulty is when you benchmark a board,

you stick within an industry or you base it on the size of the company. You don't find performance as a part of a board's compensation package, though you find members get a lot of their compensation in stock and that's driven off of performance. But at the end of day, the directors are there to act as fiduciaries for shareholders.

Still, hasn't board compensation actually been swelling in recent years?

Compensation for boards has gone up steadily in the double-digit range since Sarbanes-Oxley. A lot of it was knee-jerk reaction. Companies figured with all these new rules and compliance, their board members will be spending more time working on the business, so they increased board compensation. Then there were those who took the wait-and-see approach, and when they did finally increase compensation, it climbed even more.

The difference between a board member's salary and a CEO's salary is still vast.

You cannot do a direct correlation, but, generally speaking, board members make \$100,000 annually, all in. A CEO, depending on the size of the company, can make a million to \$5 million. So it's at least one-tenth of that salary, at minimum.

Do you anticipate slowdown in the economy having an impact on board compensation?

Not so much. Board members don't get bonuses. Their compensation is fixed. It's a retainer, and there's usually an equity grant of, say, \$50,000 worth of stock annually. If you chair a committee, you get something for that because you are in charge of preparing the materials for meetings. Besides that, there is not much variability. ■



"When times are not good, like now, boards start paying more attention to the performance of senior management, especially in terms of compensation."

—Jeremy Banoff

IN THE WORKS: Banoff says a recent compensation trend precludes paying meeting fees, preferring to offer board members only cash and equity.

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Sea CHANGE

With a shrimp supplier as its parent company, Shrimp Market brings shrimp to the masses as affordable, accessible fare.

Shrimp Market is out to prove that shrimp is no longer just for special occasions. The quick-service chain says it offers high-quality shrimp at affordable prices thanks to its parent company, which serves as its supplier. Now the Aventura, Fla.-based company is ready to roll out the brand to new markets in Florida and the Northeast.

Salomon Finvarb, founder of Cartaquá, a Colombia-based company that raises and sells shrimp wholesale, and its U.S. subsidiary, Caribco Shrimp Corporation, came up with the idea for Shrimp Market three years ago. He thought it was a natural

with cavatappi pasta, Alfredo sauce, bacon, mushrooms, peas and Parmesan cheese. Other popular items include Cajun Jambalaya Shrimp, \$6.50, with andouille sausage, seared onions and bell peppers in Creole tomato sauce; and Coconut Shrimp, \$6.95, with rum dipping sauce.

Abramowitz says she works with Cartaquá to ensure Shrimp Market gets the best quality shrimp at good prices. Cartaquá prepares and portions shrimp for each dish; for example, larger shrimp for deep-fried dishes arrive breaded and raw, while smaller shrimp for rice dishes come parcooked.

Shrimp Market plans to have 14 locations open by the end of 2009 in Florida and the Northeast.

MARKET CONDITIONS

Shrimp Market also kept quality and costs in mind when it tweaked the menu over the past year. It got rid of six items that were not selling well, had high food costs

or were labor intensive to produce. For example, Thai curry came off the menu because it had high food costs and didn't sell well. Asian spring rolls were also removed because they were labor intensive. Food costs went down 3 percent, to 35 percent.

The decor also underwent some minor changes after Shrimp Market conducted market research that found customers associated the light, modern look with only fresh, cold items like shrimp cocktail. The company added a mural with flames and warmer colors like orange to the decor, which includes white walls, light wood, stainless steel and a display case filled with shrimp on ice. It also created a display kitchen to show customers it has hot menu items.

The new look and streamlined menu have made their way into the six stores Shrimp Market opened this year in Florida and Massachusetts. It will open two more by year-end in New York and New Jersey. In 2009, it plans five units in Florida, New Jersey and Connecticut.

The company intends to build the brand along the East Coast over the next five years, citing Washington, D.C., Delaware and Pennsylvania as potential markets. But it hasn't yet made any expansion plans beyond 2009. ■



SNAPSHOT

Concept Shrimp Market
Headquarters
 Aventura, Fla.
Parent Company Cartaquá,
 Cartagena, Colombia
Units 7
2009 Systemwide Sales
 \$8.3 million*
Average Unit Volume
 \$650,000
Average Check \$9
Expansion Plans
 2 in 2008, 5 in 2009

*Chain Leader estimate

extension of his business to open a fast-food restaurant that used shrimp from his shrimp farms.

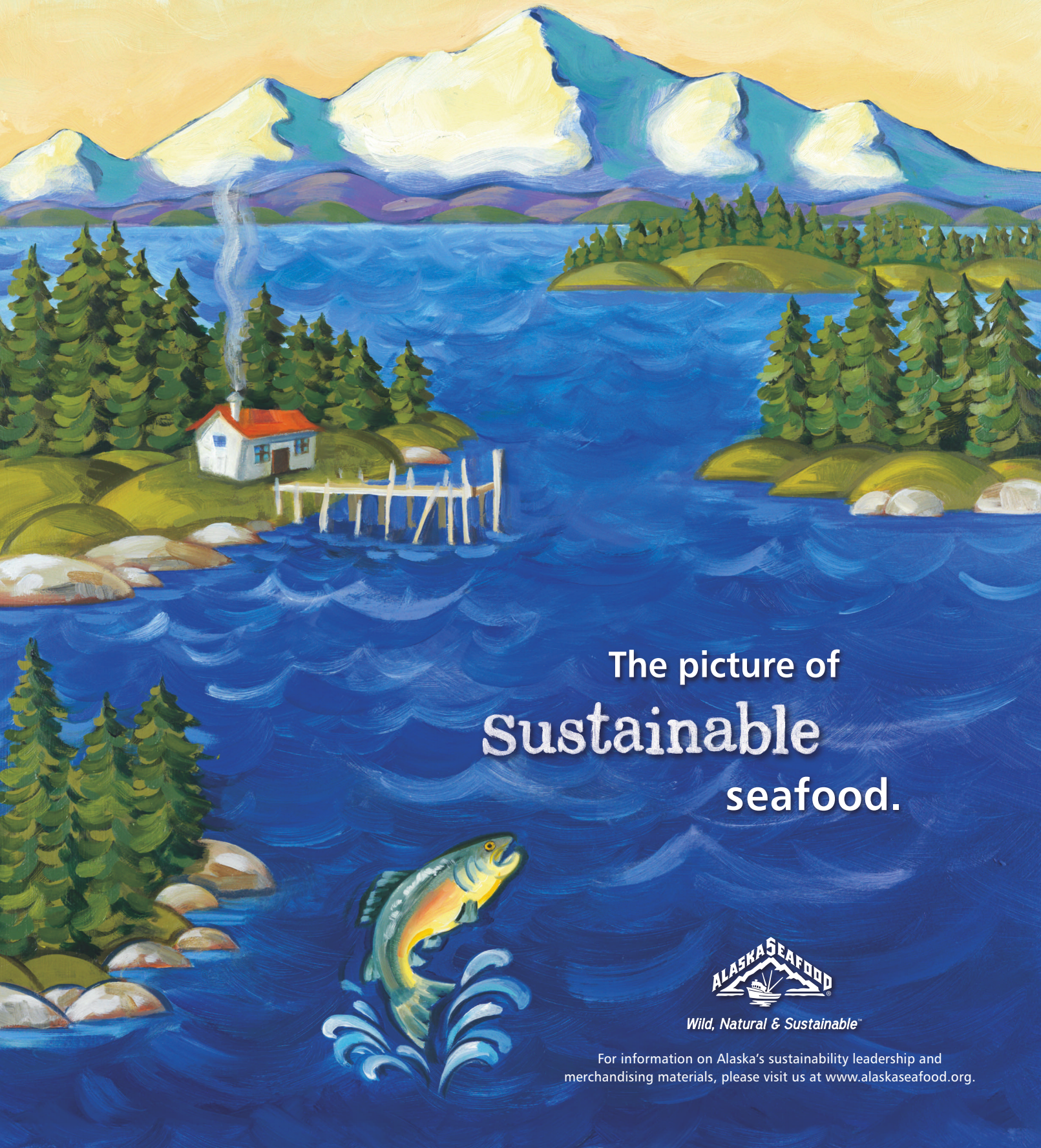
EASY ON THE WALLET

"We noticed in the United States shrimp had always been seen as a very expensive, as a very exclusive, special item," says Vanessa Abramowitz, president of Shrimp Market and Finvarb's daughter. "But because there is so much more shrimp in the market now, the price has gone down and it has become more accessible."

After working with two restaurant-consulting firms to develop the concept, Shrimp Market debuted in Aventura in February 2007. The concept features a variety of cooked-to-order shrimp dishes. The best seller is Shrimp Carbonara, \$7.95,

IN THE WORKS: Although Shrimp Market currently operates only in shopping malls, it is considering hospitals, colleges and airports.

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HELPING Hand

Operators of upstart restaurant chains share how they take advantage of outsourcing.



Small restaurant companies outsource services as a cost-effective way to grow. It gives them the expertise and manpower they need while allowing their executives to concentrate on the restaurants. *Chain Leader* spoke with operators about the functions they outsource as they expand their upstart chains.

Randy Schoch, founder and CEO, Desert Island Restaurants, Scottsdale, Ariz.

I've always believed in outsourcing [culinary]. When you're looking to make a very diversified, interesting, fun menu, it's pretty hard to find one or two people who do those things correctly and then can also run restaurants. You're much better off to pay someone to give you the recipes and then get the guy that can execute them on a consistent basis as opposed to bringing in a creative person, having them on salary at all time.

Now when you get to 50 restaurants or 100 restaurants, you can have those two different type people, but in the beginning, I think it's better to bring in the culinary expertise from outside and have it executed internally.

Chuck Darrow, president, Indigo Joe's Sports Pub and Restaurant, Laguna Hills, Calif.

The biggest one we outsource [is] field visits. They'll check everything from specs to health department

violations. They do at least quarterly visits to each store. The [field visits] costs about \$500 to \$600 per visit. It's about a three-hour visit, and they do a pretty good job with it. So it's really cut down a lot on our travel expenses. And with the [25] stores that we have open right now, that's well over 100 visits per year we're supposed to make. We have a staff of 10 people at the corporate office. So you're going to be on the road forever then if we did that. The best thing for us is, it frees our time up to go out and spend time in stores that really need help.

Bob Lin, president, Abuelo's, Lubbock, Texas

I know people use brokers or they have internal real-estate departments, but what we did two years ago is, we retained an outside company to do a mathematical site model for us. They actually score your existing locations to find correlations in what are successful or less successful sites. And then what you do is, every time you look at a new market or a new site, they pull from third-party databases having to do with population demographics, retail demographics, restaurant statistics that a third-party compiles. That coupled with the company's own scoring of the site will render a score and a comparison of this site against your existing sites. A minority of restaurant companies do it, but I think you will find a growing larger number of companies do it.

"Make sure that when you use outsourced talent that your objectives are very clear with the people that you're working with. Keep your projects very specific." —*Mark Robinow, CFO, Kona Grill, Scottsdale, Ariz.*



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**Jim Frye, founder, chairman and CEO,
Italian Oven Cafe, West Palm Beach, Fla.**

We have outsourced our kitchen and equipment design, site selection, lease negotiations, marketing, public relations, and accounting and auditing. It keeps you focused on what you do best. It keeps me focused on taking care of my customers.

Whenever you've got all of these departments and you have meetings ad nauseum to manage all these departments, all of a sudden you're running a company. Restaurants are really very personal kinds of businesses. When you start treating it like a commodity, that's when it loses its cache.

The most apparent attribute of outsourcing is cost. But the most important reason to do it is so that you keep your eye on the work at hand. You keep your eye on the ball, and the ball is making sure those guests are taken care of and enjoy their experience enough to come back.

**Danny York, chairman, Santa Fe Cattle Co.,
Brentwood, Tenn.**

Probably the most important function that we out-

Big idea New York-based Chop't keeps its infrastructure lean, outsourcing work that is variable such as construction. "It becomes very difficult for an early stage company with a growing management team to effectively manage and to effectively get the value out of their employees if they hire too many people too swiftly," says Nick Marsh, executive chairman of the nine-unit salad chain.

source is purchasing. Being a small chain, you don't have the buying leverage of a large chain. We have a guy that handles a number of small chains. He combines our purchasing power with somebody else who has eight or 10 or 15 stores, somebody else that has 20, or whatever. And at the end of the day, a lot of us use the same products. And at the end of the day, he's got a 100-store chain that he's going to a purveyor or manufacturer with saying, "Hey we want to buy 8,000 cases of yeast rolls instead of 400." And he gets a better price for us. ■

HOW TO
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TO **100**
UNITS

ON THE WEB: Check out the functions that restaurant consultant Kevin Moll recommends outsourcing. Visit www.chainleader.com.

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Back on the BAYOU

Popeyes emphasizes its fast-food know-how and **LOUISIANA HERITAGE** to grab a younger audience.

It is the operative word in the term “fast food.” Consumers go to a QSR because they don’t want to wait. But with a new branding approach—including new TV ads, logo, menu items, tagline and even a retooled name—Popeyes is trying to redefine its place in the race to be “fast.”

The Atlanta-based brand tossed off the “Chicken and Biscuits” part of its name earlier this year. Now Popeyes emphasizes its roots as a “Louisiana Kitchen,” adding a new topical tagline for its advertising: “Louisiana Fast.”

The new advertising campaign underscores

what Chief Marketing Officer Dick Lynch calls the chain’s “culinary chops.” The ads highlight that the signature chicken is marinated for 12 hours in the restaurant and is hand-battered. Those qualities are juxtaposed with Popeyes’ fast-food nature.

“That is what we call the ‘Popeyes Paradox,’” says Keith Guyett, vice president and account director at GSD&M Idea City, the Austin, Texas-based ad agency that won the Popeyes account earlier this year. “Wendy’s spends all that time trying to make everything faster, and [Popeyes] spends all their time trying to make chicken.”

YOUTH CULTURE

Lynch and CEO Cheryl Bachelder had re-evaluated Popeyes’ image in the face of slow sales growth and an ever-increasing competitive market. They over-

“\$72 Wrap” *Length: 30 seconds*



1. Ed: You know, we started marinating that chicken over 12 hours ago.



2. At about \$6 an hour in labor, by my calculations, that wrap should cost you \$72.



3. You wanna look?



4. Customer: I see.

saw the development of a new brand proposition that includes seven new menu items scheduled for rollout between the end of summer and the end of 2008. They are priced at \$1.49, designed to appeal to young customers like late-night snackers and those who eat at nontraditional meal times.

Three-quarters of Popeyes' business is from sales of traditional bone-in chicken, which does not appeal to the younger 18- to 24-year-old demographic it seeks. "These kids do not even know chicken has a bone," jokes Guyett.

Before the new menu development, Popeyes did not have products that customers could eat with one hand. Adding boneless entrees and wraps and other dishes that could be eaten in the car was a way to grow that 25 percent of its business without alienating Popeyes' loyal core customer, both urban and suburban, ethnically diverse 25- to 49-year-olds, Lynch says.

TRUTH-TELLING ON TV

GSD&M introduced Ed, a chef character Lynch calls a "Mad Truth Speaker." In the TV ads, he approaches customers—who are not actors, but actual Popeyes diners—in the restaurants, explaining the chain's recipe for Louisiana chicken and pointing out what a good value the meals are in light of the time spent to make them. The spots were shot in a restaurant because the team felt that helps underscore the message that the chicken is prepared in-house.

The commercials began airing on national cable TV networks in late August. They are supplemented with freestanding inserts and other print couponing this year. Guyett says movie theater ads and other nontraditional media may be added in 2009.

The campaign is too new to have definitive results, but anecdotally Lynch says it is already working. Franchisees report seeing increased traffic at different times of the day such as before-lunch snacks. One Alabama franchisee is selling the new Delta Mini white-meat sandwich by the sackful, competing directly with a neighboring Krystal. Franchisees report seeing younger customers they have not noticed in the past.

Popeyes will not release the ad budget for the new Louisiana Fast campaign. Nielsen Monitor-Plus pegged the chain's entire 2007 media spending at \$40 million.

THE SAME, YET DIFFERENT

In addition to the new commercials and menu, the campaign unveiled a new logo. It has some of the elements of the original, now with a Louisiana Kitchen seal.

"What we did not want to do is have the core user say, 'Who the heck is that?'" Lynch says. The logo is now on packaging and will be added to signage over time, starting with units being repaired from hurricane damage in Houston. The chain will have added between 115 and 130 new units by the end of 2008, all through franchising, and new units will sport the new signage.

This is not the first time 36-year-old Popeyes has tried to emphasize its Louisiana heritage. In the late 1990s, a "Louisiana Legends" menu featured dishes like étouffée and jambalaya.

"The jambalayas were good products, but you still needed to eat them with a knife and fork," Lynch says. "What we are doing now is making it more contemporary." ■

SNAPSHOT

Concept Popeyes
Ownership AFC Enterprises, Atlanta
Units 1,901
2007 Systemwide Sales \$167.3 million
2008 Systemwide Sales \$170 million*
Ad Agency GSD&M Idea City, Austin, Texas
Average Check \$7*
Expansion Plans 115 to 130 units in 2008

* Chain Leader estimate

on the web: check out the new Popeyes commercial at www.chainleader.com.



5. Ed: Can you guys feel the flavor?



6. Voice-over: Only \$1.49. Popeyes' new Loaded Chicken Wrap.



7. All white-meat chicken, red beans and rice in a cheddar tortilla.



8. One of three big, new deals only \$1.49. Louisiana Fast.



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SNAPSHOT

Concept Organic To Go
Headquarters Seattle

Units 34 cafes, 170 total outlets including whole-sale outlets, airport, university, corporate campus and university kiosks

2008 Systemwide Sales
\$25 million
(company estimate)

Average Check \$6

Expansion Plans
2 by year-end

Jason Brown's aim to make Seattle-based Organic To Go corporate America's go-to for USDA-certified-organic fare hasn't changed since he launched the company with a group of former natural products industry folks in 2005. But the menu has expanded to include an ever-widening array of "clean" American comfort foods for its catering and to-go businesses.

Currently 40 percent of Organic To Go sales are attributable to catering, 45 percent to guests who grab and go or eat in at the company's 34 cafes, and the rest to airport, university and corporate campus kiosks and coolers.

From the start, CEO Brown says the cafes were designed as "billboards" to put a face on the company's dual-pronged concept. Initially corporate crowds grabbing a bite at one of Organic To Go's cafes or ordering corporate lunches through the company's catering division were just glad to have a new option for sandwiches and salads made from sustainably harvested, organic foods. But Organic To Go's customer base is extremely loyal, with 60 percent of its guests saying they've bought food from the concept more than five times in an eight-month period. And, as frequency builds familiarity, the company is finding that "the more guests dine with us, the more comfortable they are asking for us to do 'clean' versions of the sorts of food they take comfort in at home, whether that's pizza, a hot dog or hamburger, or veggie chili," says Brown. "They'll say something like, 'I love soup—what are you going to do that's new with that?'"

HOT NEW COMFORTS

Keeping up with guest demands, the new Organic To Go flagship cafe, which opened Sept. 29 in Seattle, includes a grill to prepare nitrate-free hot dogs and hamburgers made from grass-fed beef.

Warming things up for guests at the rest of the cafe units, this year Organic To Go outfitted units with fast-cook ovens and induction pasta cookers, allowing service of hot sandwiches, pasta and individual-sized pizzas to order.

The company also launched a new fall/winter catering menu in September that features comforting options among the 27 new dishes. The menu includes Chicken Pot Pie, half pan (serves eight to 10) for \$129.95 and full pan (serves 16 to 20) for \$259.99, with free-range chicken breast, carrot, celery, onion, peas and potatoes in a nutmeg-scented sauce; Beef Stew, \$16.95 per person (served with two side dishes, one side salad and one dessert), with pot-roast meat and winter root veggies; a breakfast Egg Strata, half pan (serves eight to 12) for \$39.95 and full pan (serves 18 to 24) for \$42.95 with sourdough bread, red potatoes, sweet peppers, ham and cheddar cheese baked in eggs and cream;

Comforting options from Organic To Go's new catering menu include Chicken Pot Pie (opposite) with free-range chicken and organic veggies in a nutmeg-scented sauce.

The addition of fast-cook ovens means cafe sandwiches can now be served "Hot 'n Toasty."

Cafes also just added induction cookers to allow for service of pasta dishes, formerly only served through catering.



NEW PRODUCT PIPELINE

About 60 percent of Organic To Go's guests have bought food from the concept more than five times in the last eight months.



and battered and baked cinnamon ciabatta-roll French Toast, \$9.95 per person, served with fresh fruit salad and including beverage service of juice, coffee and tea.

Consulting Chef Greg Atkinson says the menu evolution has been an interesting progression. "We are now defining comfort for a much broader palate," he says. Initially, reflecting the baby boomer status of top brass at Organic To Go, "we limited our definition of comfort foods to midcentury Ameri-

cana classics we loved like pot roast and meatloaf," says Atkinson. Anecdotally, those dishes have done well on the catering menu. "But what's surprised me has been the interest in dishes with an ethnic twist that younger diners count as comfort foods, too—things like our Thai Veggie Wrap, Teriyaki Chicken Skewers and, most recently, our vegan Pad Thai with tofu—all very popular sellers."

Biodegradable packaging is good for the planet but lacks marketing pizzazz. So Organic To Go works hard to make displays "pop" visually.

SUSTAINABLE DELIVERY: Reinventing the Wheel

Get downwind of a delivery vehicle from Atlanta-based Wing Zone, and you may catch a familiar scent. "The exhaust smells like chicken wings cooking, so if you're a fan of that aroma, you're going to smell a lot more of it in the near future," says CEO Matt Friedman.

Wing Zone is switching over to powering its 120-vehicle delivery fleet to biodiesel made from its own vegetable cooking oil. The 120-unit, Buffalo wing-chain estimates it will recycle more than 220,000 gallons of vegetable oil into biodiesel each year. "This is a win-win situation," Friedman says. "We're saving money by reducing our gasoline costs so that we don't have to pass along increased prices to our customers. And we're recycling our waste by using our own vegetable oil to fuel vehicles."

Wing Zone is not alone. Eco-friendly vehicles have become a popular option for delivering restaurant food along with a powerful "we're making better choices" marketing message from Organic To Go, McDonald's, Pizza Fusion and El Pollo Loco.

Seeking a way to publicize its new delivery and catering restaurant in Beverly Hills, Calif., 400-plus-unit El Pollo Loco decided to make its delivery vehicles moving billboards. Not big, but attention-getting because of their uniqueness, the three-wheeled, subcompact electric cars attract crowds wherever they go.

"People stop in their tracks and can't stop staring at these cars wrapped with the El Pollo Loco branding," says Karen Eadon, El Pollo Loco chief marketing officer. "Not only does it make a statement about driving electric vehicles, it acts like a green billboard for the restaurant." The plug-in cars run for about 20 miles per charge at a cost of about 3 cents per mile.



CUSTOMER-DRIVEN DEVELOPMENT

The company launches a new catering menu three times a year, in September, January and June. Cafe menus are refreshed as needed throughout the year. Typically, new recipe development at the company is driven by customer demand.

Vegetarian chili, for example, was not on the company's menu. "But it was something guests really wanted us to serve," says Brown. Atkinson prepared a batch, brought the recipe to the commissary kitchen for tasting and translation into large-quantity (50 gallon) batches. The final three-bean version, which rolled out in September, is a mix of pinto, kidney and black beans with crushed garlic, cumin, oregano, crushed chili and black pepper.

Recipes for cafe pasta-sauce varieties were developed in the same way and are now prepared in the chain's four commissaries—in San Diego, Los Angeles, Seattle and Washington, D.C.—for distribution to the cafes. Sauce varieties include chicken pesto, \$7.99, with chicken, fresh basil, Parmesan cheese, garlic and pine nuts; chicken Alfredo, \$7.99, in Parmesan cream; primavera, \$6.99, with sauteed summer squash, onions, peppers, tomato, broccoli, olive oil and herbs; marinara, \$5.99; and carbonara, \$7.99, with bacon, carrot, celery and onion.

Pizza, another growth area, is served two ways at Organic To Go. The commissaries have wood-fired pizza ovens to prepare 18-inch scratch-made pizzas sold through catering for \$26.95. For cafe service, the commissaries prepare individual pizzas on parbaked dough. These are then finished off in the cafes in fast-cook ovens to order. The company

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NEW PRODUCT PIPELINE

In keeping with its environmentally friendly mission, Organic To Go uses biodegradable and compostable packaging and bicycles and hybrid vehicles for delivery.



started out with cheese, pepperoni and veggie pizzas, but has since added barbecue chicken; Hawaiian with Canadian bacon and pineapple; and Supreme with organic pepperoni, sausage, sliced mushrooms, red and green bell peppers, red onion and marinated black olives.

CONSCIOUS CHOICES

Organic To Go sources as much local produce and ingredients as it can.

The company doesn't promote its local sourcing but does proudly tout its status as the "first fast-casual cafe to be USDA certified as an organic retailer," to quote company literature. "People just assume environmental responsibility is a passion of ours and that ingredients are locally sourced when they can be," Brown explains.

In keeping with this passion, packaging and transportation for the food fit the "good for the planet" theme. Bicycles and a fleet of hybrid and low-fuel consumption vehicles deliver food. This year Organic To Go switched from plastic-wrapped sandwiches to windowed, brown-kraft triangular boxes for its sandwiches.

Other biodegradable and compostable packaging materials the company uses include recycled-paper pizza boxes, cardboard coffee carafes, salad-bar take-out boxes and sugar-cane plates. And catered food is delivered in biodegradable, handled bags. For an extra fee, catering customers can order disposable bamboo tableware and utensils.

A challenge with environmentally friendly packaging is that it lacks marketing pizzazz. To make up for



this, Atkinson says, the presentation of the food in both the display cases and the packaging has to be very colorful.

For example, while a classic Caesar salad may be tasty, it's not much to look at. At first, Atkinson says the purist in him was reluctant to break away from the classic recipe for the sake of presentation. "But when I put a few organic pear tomatoes and a big wedge of lemon in there with the salad, the presentation really popped," he says. While he can't say exactly how much, "We saw sales of the salad increase with that simple change."

Looking ahead, Atkinson is working on new soups, more varieties of pizza, and more hot and toasty sandwich options in the cafes. He's also reducing the fat in some recipes, keeping them big on flavor with the use of spices, citrus and vinegar.



"We're also going to watch guest reaction to the grilled hot dogs and hamburgers at the new store to determine if we should expand that to be included at other units," says Brown.

And for catering? "We've dabbled in doing completely custom menus for catered events, with some success," says Atkinson. "So we're hoping to do more of that." ■

Pizza is made two ways at Organic To Go: Large pies are baked in wood-fired ovens for catering. Small, individual pies are baked in fast-cook ovens for cafe service.

The Thai Veggie Wrap (opposite) is the best-selling vegan sandwich.

BIG idea Organic To Go has broadened its definition of "comfort food" to include ethnic dishes such as Asian skewered meats and Pad Thai that younger diners count as comfort foods, too.

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Mazzio's new concept, Oliveto, offers customers budget-friendly dining in an
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affordable LUXURY

With Oliveto, its new full-service Italian bistro, Mazzio's used current economics to build a restaurant that is fun, affordable and easy to use.

"We built this concept with commodities in mind—they're not going down—and building costs are up 25 percent since Katrina," says Greg Lippert, president and CEO of Tulsa, Okla.-based Mazzio's Corporation, which owns 170-unit Mazzio's Italian Eatery, a casual-dining pizza and pasta concept. "We can develop it based on the economics of the industry today, not what was true six years ago."

The prototype, which opened in August in Tulsa, is 4,000 square feet with 130 seats. The kitchen is compact; chefs get to one station from another by turning, not walking. As a result, ticket times are averaging eight minutes at lunch—a time comparable to fast-casual service. The interior is attractive, yet a keen eye would detect value touches in the stained-concrete floor, the absence of pretty-but-useless decorative items, and the simple lighting fixtures.

But that doesn't mean Oliveto is devoid of luxury. Details abound, from the custom-

made, stainless-steel olive branches that serve as exterior door handles to the granite-topped bar and communal tables. Decorative items are useful in that they underscore the restaurant's name. An array of color photos of olives and olive branches adorns one wall, and a red, over-size Italian ceramic vase, stuffed with olive branches, decorates the hostess stand.

A FRANK-FREE ZONE

Mazzio's had a precise model and customer in mind when it began planning Oliveto in 2006. In addition to rising building and commodities costs, slumping casual-dining sales and what Mazzio's perceived as demand for more flavorful menu items at affordable prices were the main forces behind the concept. "We wanted Oliveto to reflect those new demands," Lippert says.

The company also took note of greater interest in wine and specialty beverages by empty nesters and young singles, both of which "have time to enjoy a meal in a comfortable, contemporary 'cool' environment," he says.

Mazzio's enlisted longtime design partner Kathy Diamond-Ulepic of Kathy Diamond Design Associates in Scottsdale, Ariz., to create a logo and interior identity. Her approach was contemporary, Euro-

1. Oliveto's "wall of wine" doubles as a marketing tool, and a successful one: Beverage alcohol sales are 25 percent of sales on weekends.

The exterior features lime-green panels that glow under spotlights at night.

2. Booths are surrounded by a tall back, creating a semiprivate dining area. A grape-colored soffit hanging above it provides an extra bit of visual separation.

SNAPSHOT

Concept Oliveto Italian Bistro

Ownership Mazzio's Corporation, Tulsa, Okla.

Location Tulsa, Okla.

Opening Day
Aug. 19, 2008

Seats 130

Area 4,000 square feet

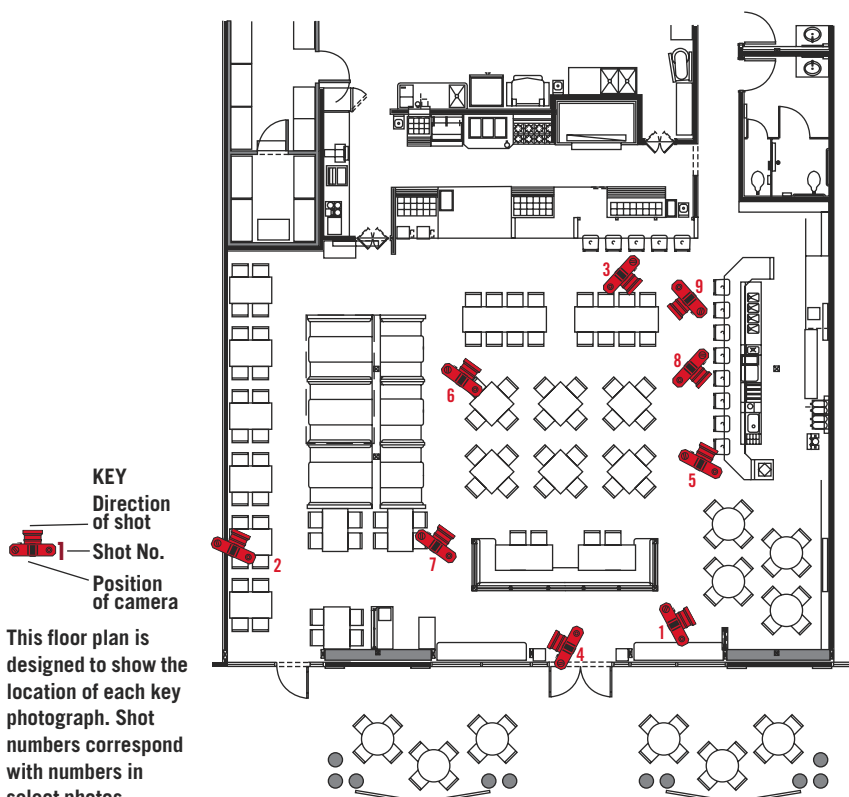
Per-Person Average \$13

Unit Volume \$2.8 million*

Expansion Plans
2 this year

*Chain Leader estimate





pean and Italian—no “ristorante” details such as red booths or a Frank Sinatra soundtrack.

ONE BIG SPACE

The prototype is an inline location, in a former Safeway grocery store that was converted to a small shopping center. The area pulls both business and residential customers; household income in the area is \$80,000, a good fit for the concept, Lippert says.

Using the raw space, Diamond-Ulepich designed a dining room that is one large room; there’s no division between the bar and dining area. The room has two focal points. One is the bar, which has a “wall of wine” flanked by four high-definition televisions at the back. The wine wall sends a message: “We sell lots of different wines, and affordable wines,” Lippert says. Customers apparently are getting the message: Alcohol sales are 25 percent of total sales on weekends and 8 to 15 percent on weekdays, much higher than Lippert expected.

The other focal point is an exposition kitchen, complete with a woodburning oven that produces

A mix of bright colors and dark polished woods lends a “contemporary Italian bistro” feeling to Oliveto.

40 percent of the menu. Flanking the kitchen is a granite counter with eight seats, where customers can dine and watch the kitchen in action.

Together, “the bar and open kitchen give you the feeling that you’re in a contemporary bistro, not sequestered away from the kitchen and bar,” Lippert says.

FUNCTIONAL SEATING

The dining room is a collection of two-tops and four-tops, plus two granite-topped communal tables. The community tables, for single diners or couples, are “very popular,” Lippert says.

Diamond-Ulepic custom-designed two four-seat booths with super-high backs. The booths are cordoned off from the dining room with a low dividing wall, creating a semiprivate area. A plum-colored ceiling fixture suspended above the booths “increases the intimacy level” of the booth area, says Diamond-Ulepic.

As an accent color, plum joins lime green, which appears in small tiles covering the exposition kitchen counter, booth and seat coverings, and pendant lights as well. The exterior logo is wrought in plum and surrounded by green metal awnings, which are uplit at night.



3. Because the dining room is one large expanse, almost every seat gets a view of the display kitchen. That access adds a busy, energetic vibe to the atmosphere.

(Opposite inset) The display kitchen, complete with woodburning oven, turns out a contemporary Italian menu of about 30 items.

4. Decorative touches are limited to brand-enhancing items like a vase filled with olive branches.

5. The bar reflects a contemporary feel with granite countertops and seats covered in olive-green faux leather.

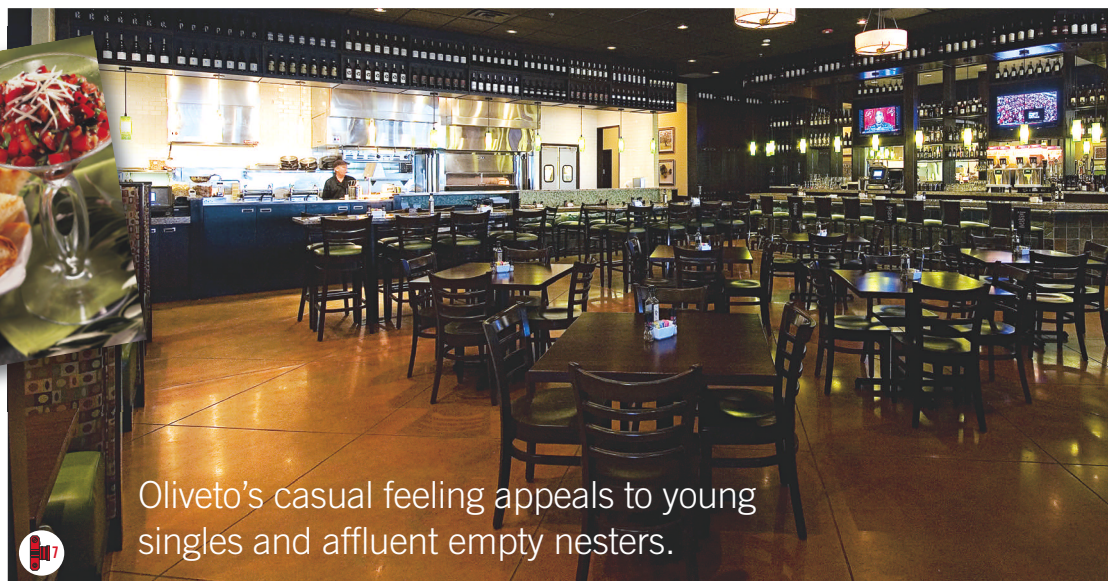
6. Granite-topped communal tables are popular with singles and couples.



RESTAURATOUR



A list of moderately priced, creative starters such as a bruschetta martini (\$5.75) encourages customers to order appetizers to share and wine.



Oliveto's casual feeling appeals to young singles and affluent empty nesters.



7. The designer balanced budget decisions such as the stained-concrete floor with upscale touches such as the granite bar and communal table tops.

8. Lunch, which begins at 10:30 a.m., accounts for 35 percent of total sales; lunch at the bar is a popular option for business customers.

9. The right blend of acoustic ceiling tiles and upholstered surfaces creates a noise level that's energetic but not earsplitting.

A NICE BUZZ

Lippert says one of the most important features of Oliveto is one customers can't see, and that's its acoustic quality. Diamond-Ulepic sourced a high-quality acoustic tile for the ceiling. It, and enough wood and upholstered surfaces, creates an ambience that's upbeat but not conversation-crushing. "You can totally hear your conversation, but not the people at the next table," she says. Wood-framed oblong mirrors, which reflect images and light, also liven the atmosphere.

Six weeks after opening, the restaurant's performance was exceeding expectations, Lippert says, though he won't give specifics. Customers were following menu cues, ordering wine and starters from the list of low-priced "wow" appetizers such as bruschetta served in a martini glass for \$5.75. Lunch, which begins at 10:30 a.m., accounts for 35 percent of sales, a figure Lippert is happy with.



Oliveto has systems in place for catering and curbside takeout, but those services didn't launch immediately. "We didn't want to stress the kitchen too much," Lippert says. "We wanted to make sure dine-in customers had the best experience possible."

Two more locations are scheduled to open: a freestanding unit in Waco, Texas, in December and an endcap in Tyler, Texas, in February. That way, Mazzio's will have three models to evaluate before fully rolling out the concept. Lippert won't disclose long-term plans for Oliveto.

By design, the buildout cost is just under \$1 million. Mazzio's plans little in the way of value engineering. The 35-item menu, however, may undergo a slight makeover. "We would like it to be smaller," Lippert says. "We have a commitment to chalkboard specials, to acting like a one-store operation, not a chain. We want to keep the guest guessing what we'll have next," he says. ■

[ELEGANCE]

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Tight credit markets are squeezing restaurant operators, making access to external funding difficult, if not impossible, to obtain. The government's bail-out plan may eventually provide relief but not for at least another six to 12 months, experts say.



Borrowing BLUES

It would be tough to find a more experienced operator than Bill Hoppe, a 25-year industry veteran whose résumé includes senior executive stints at Vicorp, Rock Bottom Restaurants and Maui Tacos. Still, his latest project—a prototype of a new fast-casual concept called Maya Mexican Grill—has ground to a halt. “We put it on hold pending the resolution of financing,” laments the Dallas-based entrepreneur. In other words, Hoppe, of all people, can’t get a bank to loan him the capital he needs.

Join the club, Bill. During the first two weeks of October, franchisors and franchisees of emerging concepts all suffered a similar fate—the near nonexistent availability of credit as a result of the current financial crisis. Those who could find willing lenders were required to put up more equity—and more information—to get their hands on a loan.

“It just depends on the size of the deal,” offers Jordan Krolick, president of Stevie B’s, an Atlanta-based pizza concept that is growing through franchising. He says the company has signed up new franchisees with loans from the Small Business Administration to finance the \$400,000 to \$500,000 to open a unit. “But we’re finding deals are taking a little longer than they used to,” he adds.

Commercial lenders have all but closed their gates. GE Capital Solutions indicates the company was open for business but is also “much more selective given these

unprecedented times,” says a GE official who spoke on the condition of anonymity.

At issue is the cost of borrowing. “Currently we are not considering [loan] applications. Capital markets are very difficult to price,” explains AIG Franchise Finance Vice President Greg Burns.

INFUSION OF CAPITAL

There was glimmer of hope at press time that the loan process would eventually be sped up. In mid-October, leaders of the 15 “Eurozone” nations met in Washington, D.C., to coordinate efforts to end the crisis by recapitalizing the beleaguered banking system, thereby providing liquidity for lending. They reportedly agreed to a plan that will guarantee loans between banks through 2009 and pledged to buy the preferred shares of financial firms. The U.S. Treasury Department is following suit, albeit reluctantly, by investing roughly \$250 billion in shares of major

As chain operators ponder what’s in store as credit markets tighten, they know one thing: It’s no longer business as usual.



COVER STORY

The credit squeeze couldn't have arrived at a worse time. Consumer pullback has already plunged most chains into a deep downturn. Fresh City is looking at new projects very carefully. "The world is changing on a daily basis," says CEO Larry Reinstein.

investment banks. "Government owning a stake in any private U.S. company is objectionable to most Americans—me included," said Treasury Secretary Henry A. Paulson, yet adding that "leaving businesses and consumers without access to financing is totally unacceptable."

Still, no one was predicting credit would be any easier to get as a broader financial crisis was still playing out in markets around the world. Barclays Capital analyst Jeffrey Bernstein advised investors to remain cautious in the second half of '08 and into '09. Among the concerns he cited in a recent report are refranchising efforts "in terms of qualified franchisees, access to capital and multiples paid."

Morgan Keegan's Bob Derrington predicts franchised chains will likely begin offering waivers on development agreements as external lending is pulled back from franchisees. "The eye of the needle is getting smaller and smaller for those needing external funding," he warns.

Pizza Fusion franchisee Harry Day will likely

have trouble meeting his development agreement, which includes five pizza restaurants in Greater Denver. So far, with help from angel investors and a conventional loan, he's gotten one unit open. Day, former vice president of marketing for LongHorn Steakhouse, had hoped to open four more units over the next several years.

After all, his bank told him it would fund his agreement. Then came the meltdown, and his bankers pulled back their promise. "That's where the changes have affected me personally," sighs Day, whose growth plan is in limbo. "Things seem to be changing every single day."

And, some experts believe, things will not be changing for the better anytime soon. "I would be doing just about anything I could to avoid borrowing for any reason now," declares financial adviser Jim Parish of Parish Partners, in Vancouver, Wash.

His advice: Delay expansion and turn your attention toward improving customer service and value. Parish admits his view is "super cautious" but nonetheless appropriate for a severely stretched industry. "This isn't over yet, and we haven't seen the worst," he warns.

BAD-NEWS BEARERS

Hard times—and too much leverage—have already doomed the weak. Company-operated Bennigan's and Steak & Ale units have vanished from the field of dining after parent S&A Restaurant Corp. filed for



Borrower Beware

Former Wells Fargo Foothill lender Rod Guinn, now a financial adviser to restaurant chains, offers operators tips on working with lenders—if you can find one willing to finance your deal.

HIRE AN ALLY. Guinn says it never hurts to have someone on your side to sort through new lenders. This might be an attorney with debt-financing expertise or a strategic adviser like Guinn.

EDUCATE THE LENDER. Tell a lender how your restaurants operate and how they fit into the industry as a whole. When they see bad news about a competitor, you don't want the lender to think it necessarily applies to you.

DON'T OVERPROMISE. Be very careful about projections and build in a cushion, Guinn says. Realize that with any lender, if you miss your projections by a sufficient amount or, worse, fail to make a payment, you're also causing pain in the lender's portfolio.

Chapter 7 bankruptcy in July. Orlando, Fla.-based Shells Seafood filed for Chapter 11 protection in September, and Ruby Tuesday blamed the economy for an astonishing 95 percent decline in diluted earnings per share in its first quarter ended Sept. 2.

Even casual-dining leader Dallas-based Brinker International is offering a wrenching forecast for its fiscal year ending June 24. Officials say EPS, excluding some items, could plummet 25 percent from the same period the year before. One telling sign: Overall comparable sales dipped 4 percent at the company's four chains in its first quarter ended Sept. 24.

Such misfortune may be the best reason for stronger chains to go into debt, argues former lending executive Rod Guinn, now a strategic adviser

based in Albuquerque, N.M. "If you are a good operator, there are good reasons to be borrowing," he argues. Case in point: the shuttered sites of weaker competitors.

"That's one area of definite opportunity," acknowledges Larry Reinstein, CEO of Fresh City, a 19-unit chain based in Needham, Mass. "But you don't know what exactly is the right deal. I mean, a great location is a great location, but where will the marketplace land in terms of occupancy costs and revenues? That's what everyone is waiting to see."

Dan Rowe thinks he knows. "Right now the focus is on landlords and conversions of failed restaurants, where there are plenty of great deals out there to offset the cost of capital," declares the co-founder and CEO of Fransmart, an Alexandria, Va.-based franchise development company with a portfolio of 13 restaurant brands.

Veteran restaurant executive Lou Neeb, chairman of Houston-based Mexican Restaurants, agrees: "Companies with strong balance sheets will try to negotiate leases down because [landlords] may offer extended leases or [defray] common area maintenance costs."

Stevie B's President Jordan Krolick, contractor Don Jenkins, and co-franchise owners Tom Peters and Wiley Clark examine blueprints in Cartersville, Ga. The franchisees avoided commercial lenders by paying cash for their new restaurant, currently under construction.

COVER STORY

"I would be doing just about anything I could to avoid borrowing for any reason now."

—Jim Parish, Parish Partners



Despite loan difficulties, some operators are finding favorable rent deals. ZPizza franchisee Bennett Hirsch, who is opening restaurants in San Diego and Las Vegas, says he's "cautiously optimistic about getting relief from landlords."

BEST MARKET EVER

While debt is expensive and remains hard to get, Rowe concedes, deteriorating sales have made rent deals increasingly favorable. "We haven't seen a real-estate market this good in 10 years. Rents are coming down 10 to 20 percent, and there's more tenant-improvement dollars and abated rent than we have ever seen—and this is will offset increased rent costs," he says.

Fransmart franchisee Bennett Hirsch of Newport Beach, Calif., says he will get "relief" from landlords at two sites where he plans to open ZPizza, an upscale pizza concept with emphasis on healthful ingredients.

Still, he isn't taking any chances when it comes to his banker. Hirsch, a marketing executive who's agreed to open ZPizza units in San Diego and Las Vegas, hired a veteran restaurant manager to help convince the lender he understands the restaurant business. "The bank wants to know about the level of management. They said, 'Tell us about the man-

agement you are bringing in and how you are running the business,'" Hirsch recalls.

Reinstein knows the feeling. While he hasn't yanked any funded projects because of the credit squeeze, he's being particularly cautious, in part because of his relationship with his bank. "It is much more of a process now. The bank hasn't said no, but they haven't said go out and spend, either," he notes.

As for franchisees, Reinstein says, "They have to be well-capitalized to get things done. It is really about having a lot

of equity to go into situations."

NEW PLAYERS?

Such an onerous requirement could mean new lenders—and perhaps new ways of financing deals—in the space, the experts say.

"No question. Someone will come up with new ideas of how to finance, be it some form or other of limited partnership or whatever. Stuff will happen," offers Neeb.

"There will be new capital coming in to replace some of the capital that has left the space," predicts Guinn. "But not as much, and therefore it will still be more restrictive."

"Frankly, if a hedge fund—where all the money is right now—wants to get into this business, now is the time," says Parish. Yet, he adds, no matter who is financing deals, the deals will be costlier, more intrusive and require more reporting.

Hoppe is already resigned to that scenario: "With the absence of traditional financing, the traditional way of running a franchise operation will have to be reviewed. It's no longer business as usual." ■

BIG idea Dan Rowe of Fransmart advises operators to pursue several lenders at a time to hedge against problems like loan terms changing at the last minute or lenders deciding not to lend at all.

on the web: An analyst, an operator and a professor of restaurant management explain the industry's dramatic slowdown in a podcast at www.chainleader.com.

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Krystal Company was among the earliest of fast-food chains to adopt social-networking sites. Now, nearly three years later, other chains are catching up. Krystal's marketing team is determined to remain ahead of the curve by focusing the sites' visitors on its menu rather than its image.

Krystal turns to **SOCIAL-NETWORKING** tools to get people talking about its food.

Social SKILLS

SNAPSHOT

Company
Krystal Company
Headquarters
Chattanooga, Tenn.
Units 381
2008 Systemwide Sales
\$415 million*
Average Unit Volume
\$1 million*
Average Check \$6.50
Expansion Plans
20 company-owned restaurants in '09
*Chain Leader estimates

The competition is apparently catching up with Chattanooga, Tenn.-based Krystal Company. Digitally speaking, that is. "We used to have a 10-and-a-half-game lead late in the season," laments Brad Wahl, vice president of marketing, referring to the company's Web strategy. "Now we are two or three games ahead."

Though not for long, Wahl insists. Within the next 12 months, the 381-unit burger chain will have executed a new plan that will put it back on top. Although he won't share full details citing the competitive nature of the business, he says the interactive strategy focuses more on Krystal's menu and less on the brand itself. "Products are still the No. 1 reason people choose the brand," he says.

Krystal gives customers plenty of opportunity to interact. Its Web presence includes pages on

Facebook and MySpace and a company-run video site called mybigredcouch.com. The brand's own Web site, krystal.com, directs visitors to a variety of micro-sites in which they can talk with each other.

That effort alone puts the 76-year-old private company well beyond those of most restaurant chains, whose Web sites typically consist of history, menu, locations, store, and franchise and/or investor information.

ENGAGING EYEBALLS

Not that such information isn't useful, Wahl acknowledges. Krystal's Web site includes similar information—only you have to click a button labeled "corporate" to reach it. Otherwise, the home page allows visitors to click through to sites that encourage interaction. "As a marketing person my No. 1 objective is to engage the consumer with the brand and give them a reason to choose it over another brand," Wahl says.

Wahl and Senior Marketing Coordinator Tiffany Rosenberg have themselves been engaged in Web

activity since early 2006 when they launched Krystal Lovers Lounge, a member forum where people can, for instance, post messages about all things Krystal (“the fries are somewhat good, but they could use some more salt!”) or watch and rate commercials.

Since then, the chain has also posted profiles on social-networking sites Facebook and MySpace and updates them regularly. In September, for example, both sites were touting the “Krystal Square-off,” a hamburger-eating contest the chain sponsors. Krystal’s MySpace page lists some 1,800 friends and contains nearly 200 comments, many about the food. “I got off the plane in Knoxville from Milwaukee and headed straight to the Krystal, it’s my first stop every time I visit home,” noted “Judd.”

“I love [Krystal’s] page,” declares Internet marketing specialist Randy Lopez, chief marketing officer for G&M Plumbing, an ad agency in Manhattan Beach, Calif. “Their fans are utilizing it, it shows the brand, and it’s really a conversation. Social media is where [the industry] is headed.”

To spark engagement early on, the marketers used the Lounge to announce a new frozen beverage, asking members what they’d call it. Even though no prize was involved, the company says it received several responses. Inspired by one of the suggestions, Krystal came up with the name Purple Passion for the drink.

“We didn’t do a promotion, saying whoever comes up with the best name wins. That’s too old school for us,” Wahl says. Says Rosenberg: “You don’t have to dangle a carrot in front of people. They want to engage.”

Initially keeping people glued to their Web site was the goal, but broadband technology, which allows rapid page views, worked against them. Today, instead of measuring length of time spent on any one page, Wahl and Rosenberg gauge combined page impressions on four of the six Web sites. “The way consumers use Web sites has changed. They want to be bombarded with many types of interaction,” Wahl says.

MODEL BEHAVIOR

Rosenberg has been impressed with the interaction among consumers on Amazon’s Web sites, which encourage people to rate products. “What they like and don’t like,” she says. “I like that model. I want to put our food in more of a key role on social-networking sites. We’ve found that people want to talk about our food.”

The marketers know this because they monitor Web sites their visitors come from, and they look

at what people say about the brand elsewhere. One site that has attracted attention is Twitter.com, a social-networking site in which users send and read other users’ short, text-based posts. A recent Twitter search for “krystal” turned up dozens of product-related comments.

Wahl and Rosenberg believe organizing interactivity around their menu will put them ahead of competitors. “It’s getting to people who want to talk about dessert items or big burgers or kid’s meals,” Wahl says. “I want to get them talking more about individual products and less about the overall experience with the brand.” ■



Thebigredcouch.com gives customers a chance to mug on camera (and say nice things about Krystal). The chain recently began lurking on Twitter.com to learn what people are saying about the company. “It is very valuable information,” says Senior Marketing Coordinator Tiffany Rosenberg.

Customer Insight, Now

If a customer wants to gripe about his or her experience at any of the four Seafood Sam’s on Cape Cod, it’s as easy as shooting the fast-feeder an e-mail or calling the restaurant. Both e-mail address and phone numbers are listed on the “feedback” page at seafoodsams.com.

That may be cathartic for customers, but it’s a hit-and-miss proposition for the proprietors of the four restaurants, each of which is separately owned.

Jeff Lewis, however, the proprietor of the Sandwich, Mass., unit, is using a systematic approach to customer complaints at his 350-seat eatery. Today, not only is he able to respond to problems like the other owners, on-demand software allows him to gauge how well his restaurant is satisfying customers at any given moment.

He can collect the customer-response data, which is numerically weighted, 24/7 via a Web site. If a customer complaint is weighted below 70, Lewis gets an e-mail alert. Otherwise, the program e-mails him periodic reports.

The systemized process begins in the restaurant, where customers grab comment cards or go online after their visit (the card directs them to a Web site). Both card and Web site ask for the same information—questions that Lewis devised with help from Bizgrader.com, an East Greenwich, R.I.-based company specializing in customer-satisfaction software.

Questions include:

- Was your food order taken in a timely manner?
- Did you find the restaurant’s dining area to be clean and well kept?
- Are you limiting your intake of foods containing trans fat?

The questionnaire also invites customers to share their e-mail address for news of deals and to join a birthday club.

Lewis says that while the comment cards and Web site register complaints, it’s actually a bin for data collection. “More important than the bitching is finding out what they want to see on the menu and what some items are they didn’t see,” he explains.

The digital video surveillance system at Miami-based Lime Fresh Mexican Grill has proven to be a versatile tool. It has helped the three-unit company improve operations and loss prevention—crucial as the fast-casual upstart embarks on expansion this year.

Lime Fresh has been using the system since it opened in 2003. It costs about \$7,200 to outfit each store with the system. Each restaurant has eight to 12 cameras placed in areas such as prep tables, cash registers, dining room, beer and wine storage, back door, parking lot and patio. The motion-sensor cameras upload images to a digi-

tal video server housed on site at each restaurant. Each server holds 45 to 60 days of footage and is connected to Lime Fresh's Web server. Managers can dial into a password-protected Web site to watch the images in real time or review stored footage.

MULTITASKING

Managers and executives use it daily to ensure customer service, employee productivity, and that units are clean and properly staffed. Lime Fresh has seen labor go down 1 percent to 11 percent to 12 percent since it opened, which the company partially attributes to the system.

The surveillance system has also been effective in catching employee theft. For example, COO John Tims credits the system for reducing the number of no sales, voids and refunds, although he can't quantify. Because the POS system is integrated with the video surveillance system, Tims can review the transactions and corresponding footage to determine whether a void was legitimate.

In one instance, Tims was suspicious when an employee rang up 20 \$2 coupons during her shift. When he reviewed the footage, Tims saw that she redeemed only five coupons and pocketed \$2 from each remaining transaction.

But Lime Fresh says it has reaped the most benefit

Each Lime Fresh has eight to 12 cameras strategically placed throughout the restaurant including the dining room and at the cash register.

on the
WEB

HOW TO SECURE YOUR QUICK-

SERVICE RESTAURANT

Quick-service restaurants are more prone to crime than any other foodservice segment, according to Chris McGoe of Los Angeles-based McGoe Security Consulting. He offers tips for putting together an effective security plan.

Visit www.chainleader.com.

from the video system when an employee accused a manager of sexual harassment last year. She eventually dropped the suit when the video footage proved that her allegations were false.

HELPING OTHERS

Because Lime Fresh has seen success with the surveillance system, it requires franchisees to use it, too. The company accesses the system to help franchisees improve their business.

For example, when Tims noticed that the ticket times at a franchised store in Pembroke Pines, Fla., was eight to 12 minutes at nonpeak hours, he accessed video from the store to determine why the ticket times were high. He saw that the kitchen was only staffed with one person instead of three. So the franchisee kept the two other cooks from the previous shift longer. As a result, ticket times went down to five minutes and sales increased 6 percent during that segment.

Lime Fresh expects the system to help future franchisees as it expands. Franchisees will open two stores this year and five next year in South Florida. Then the company expects to grow into the Southern states in 2010, opening at least 10 a year thereafter. ■

Watch and LEARN

Lime Fresh Mexican Grill's **DIGITAL VIDEO SYSTEM** helps the fast-casual chain address both operations and loss prevention.

SNAPSHOT

Concept Lime Fresh Mexican Grill
Headquarters Miami
Units 3
2007 Systemwide Sales \$4 million
2008 Systemwide Sales \$6 million (company estimate)
Average Unit Volume \$2 million
Average Check \$10 to \$12
Expansion Plans 2 in 2008, 5 in 2009



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Since 2003 Church's Chicken's 260 company-owned stores have been using an Internet-based supply-chain system that houses all the distributor information including product specs and contracted prices on one platform. Last year the Atlanta-based quick-service chicken chain added a module that automates invoice entry, saving time at the store and mistakes at the distributor.

Church's managers devote less time to invoicing for product, thanks to an Internet-based processing system, so they can spend more time ensuring a quality meal and service for their customers.

How it was: The store manager takes inventory every day to decide how much to order. For each item, she inputs the quantity and places the order with the distributor. When the order arrives, she puts it into the system, noting any discrepancies.

How it is now: The inventory and ordering process is the same. But when the order arrives, the manager simply confirms the invoice or inputs exceptions. "It's taken something that was an hour, an hour-and-a-half, down to five minutes," says Alan Stukalsky, Church's chief information officer. Managers can use that time to interact with employees or staff.

WIN-WIN

The distributor is pleased as well, because "they're being paid quicker and more accurately," Stukalsky says. "From a partnership standpoint, we weren't doing a good job of paying accurately. We wanted to pay accurately, but it was hard to manage."

In the past, items might be miskeyed and payments were often less than expected due to the managers' adjusting invoices based on incorrect deliveries. Both the distributor and Church's corporate spent time investigating and reconciling differences. Today,

SNAPSHOT

Concept Church's Chicken
Headquarters Atlanta
Units 1,200
(260 company owned)
2008 Systemwide Sales
\$1.1 billion*
Average Unit Volume
\$695,000
Average Check \$4.50
Expansion Plans
26 in 2008

*Chain Leader estimate

on the WEB

SUPPLY CHAIN SOFTWARE TO AID QUALITY AND SAFETY

Subway's Independent Purchasing Cooperative uses its supply-chain technology to monitor food quality in real time at any point of distribution.

What used to cause animosity now leads to collaboration, the company says. Read how the partnership works at www.chainleader.com.

Stukalsky says, they receive one or two invoices per month, down from 15 or 20, and they are accurate.

He adds that there were enough issues every month and enough people who were tracking things down that the decision to automate was easy. While Stukalsky won't give specific costs, he says it took less than four months to get the return the company was looking for. "It was an easy sell," he says.

MAKING PROGRESS

Another benefit is that the program creates reports that show where a unit might be overspending and compare it to other restaurants. Corporate can then guide those who need help.

Looking forward, Stukalsky expects that Church's will roll the system to franchisees. He'd like to see the system tied directly to the POS system, so the marketing department can get more insight into what customers are buying, rather than just data on what the restaurants are buying.

But he says it already has "helped us close the loop of the supply chain. We knew what went into the store, but we weren't really capturing information once it got to the store. Now we can get good reports around not only what they ordered but what they received and used." ■

Church's CIO Alan Stukalsky would like to tie the chain's invoicing system to the point-of-sale system to quantify what customers are purchasing rather than what the stores are purchasing.



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Restaurant chains that **ACCOMMODATE CONSUMERS** with food allergies avoid possible risk while serving a loyal customer base.

Welcoming INTOLERANCE





Big idea Contests to speed service can actually hurt food-allergy programs. Make sure employees know that when they are preparing food for a guest who has a food allergy, they are allowed to take the time to ensure that they don't make mistakes.

The restaurant chains featured in this story are in an enviable position, not because they offer menus, dishes and attentive service to those who are allergic to wheat, eggs or other common allergens. They have all benefited from a loyal group of customers sharing positive word-of-mouth via the Web sites and newsletters consumers use to share information about their allergies.

Anne Munoz-Furlong, who founded the Food Allergy & Anaphylaxis Network in 1991 to find resources to deal with her own child's allergies, says these people don't necessarily go out to restaurants looking for variety or even taste. "They go back to same restaurants," she says. "They're looking for trust."

GRASS-ROOTS MARKETING

Red Robin has found its way into the directories and blogs of food allergy advocates. "It's the biggest way that news spreads," says Jennifer Andrews, director of menu leadership for the 400-unit, Greenwood Village, Colo.-based chain. "People feel they can trust that information."

While she has been happy to talk with the consumer sites, she hasn't reached out to them to get included, noting that the consumer effort is more grass roots.

Peter Schonman at Biaggi's has reached out to the sites. The executive chef of the 21-unit, Bloomington, Ill.-based Italian concept wasn't looking to get listed as much as looking for information.

Munoz-Furlong cautions against using the

consumer sites as a primary source of information because they rely on experience and opinions rather than science. What advice would she give a chain that wanted to provide allergen-free menu items? Talk to other chains; like food safety, dealing with food allergies is not a competitive point of difference. Operators can also download *Welcoming Guests with Food Allergies*, a booklet FAAN created with the help of a restaurant task force.

INFORMATION, PLEASE

Red Robin has menus that cover each of the "Big Eight" allergies: eggs, milk, fish, shellfish, peanuts, tree nuts, soy and wheat gluten. The gluten-free menu is available on the chain's Web site. Other menus vary from company units and franchised restaurants, due to differences in some of the ingredients purchased, but each menu is available at each restaurant. Menus are updated at least every month

Red Robin attracts customers with food allergies because the consumers share good experiences on forums and blogs.

Food Allergy FAST FACTS

The Food Allergy & Anaphylaxis Network's *Welcoming Guests with Food Allergies* reveals:

- One in 25 Americans reports having a food allergy.
- Food-allergy-related reactions account for an estimated 30,000 emergency-room visits and between 150 and 200 deaths each year.
- Even a trace amount of allergy-causing food is enough to trigger an allergic reaction in some people.
- Allergens end up in surprising places. Some things labeled nondairy contain milk derivatives. Customers allergic to latex can't eat food prepared by workers wearing latex gloves. Peanut oil or soy oil that is highly refined can be safe, but cold-pressed, expelled or extruded oils contain proteins that are not safe. Customers can have an allergic reaction to peanut shells on the floor, residual food on a table that hasn't been thoroughly wiped off, or coming within a few feet of the food being cooked.

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FOOD SAFETY



Maggiano's chefs will talk to customers with allergies, both to make sure they have the information they need and that the guest feels comfortable.

and carry an expiration date.

Red Robin rolled out the allergen-free

menus to corporate stores, which account for almost three-quarters of the chain's 420 restaurants, in October 2007. Franchised stores have had the menus since June 2008.

Brinker International is also among a growing list of restaurant companies that provide allergen information online. According to Stephen Posey, director of quality assurance and food safety, the Dallas-based parent of Chili's, Romano's Macaroni Grill, Maggiano's and On the Border provides menu options free of the common allergens, allowing guests the opportunity to review the information prior to their restaurant visit and print the suggested menu options to bring with them to the restaurant.

Once at the restaurant, Andrews says, it's important that managers speak to customers about their allergies, make them feel welcome and show them that they understand the information. At Red Robin, a manager immediately takes charge of the order. He or she can print the current menu for that guest's allergy and discuss it with them. The order ticket shows a red allergy alert.

Resources & Links

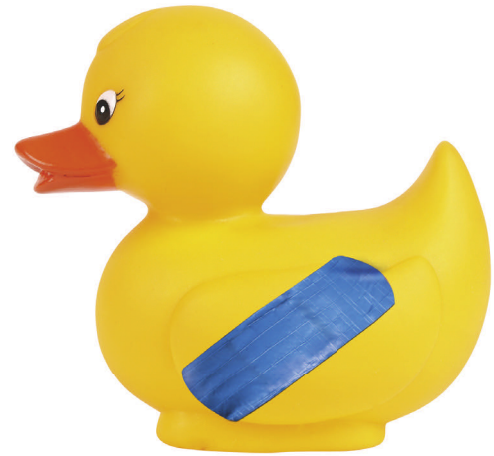
The Food Allergy & Anaphylaxis Network provides information for those with allergies, the medical community, restaurants and more. Its guidebook for managers and staff, *Welcoming Guests with Food Allergies*, can be downloaded for free at www.foodallergy.org/advocacy/restaurants.html

September was National Food Safety Education Month, created by the **National Restaurant Association Educational Foundation's International Food Safety Council**. This year's focus was preventing allergic reactions. Training information and signs are available at www.servsafe.com/nfsem/

The Food Allergy Initiative provides tips for foodservice professionals as well as information for consumers on making the right dining choices. www.faiusa.org

The Gluten Intolerance Group of North America's Gluten-Free Restaurant Awareness Program provides a directory of restaurants that have gluten-free menus or menu items. www.glutenfreerestaurants.org/chef.php

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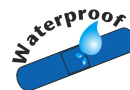


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Substitutions from a manufacturer or distributor can change recipes and potentially add harmful allergens.



Brinker concepts such as On The Border have allergen-free menus on their Web sites.

The manager follows the dish through preparation, then delivers it to the customer.

In the kitchen, training staff on preparing allergen-free dishes is a natural extension of Red

Robin's thorough food-safety training. "The allergen program fits nicely within our food-safety program," Andrews says. "None of this is possible if you don't have training in the store."

A survey reported in the April 2007 issue of *Annals of Allergy, Asthma & Immunology*, the scientific journal of the American College of Allergy, Asthma and Immunology, showed food-allergy training was only conducted in 42 percent of restaurants and food establishments. The article noted that while about 90 percent of managers, servers and chefs reported varying degrees of comfort with providing a safe meal, they had some misconceptions like consuming a small amount of allergen is safe (24 percent); fryer heat destroys allergens (35 percent); and removal of an allergen from a finished meal was safe (25 percent).

Schonman echoes the importance of food-safety training. "Take cross-contamination. If you're cognizant of the rules about poultry and seafood, you understand why you can't cook gluten-free pasta in the pasta cookers," he says.

Biaggi's sells enough gluten-free pasta (four to six servings each night) that now it's pre-cooked and preportioned, and a special pot of water is on to heat it up. Schonman says the rice-based pastas take longer to cook, and having it pre-cooked means customers with allergies and their tablemates don't have to wait.

He's looking for more ways

Biaggi's says customers with allergies to shellfish and other foods often teach servers how to help them select a dish.

to serve guests with food allergies, including trying to source gluten-free pizza dough from a manufacturer large enough to supply all the units.

IT TAKES A VILLAGE

Getting accurate information and orders through the supply chain is crucial. Munoz-Furlong tells the story of a girl who chose her meal from a restaurant's egg-free menu. The server suggested vanilla ice cream for dessert. The child suffered a reaction because the ice cream was French vanilla, which has eggs in it, rather than the usual vanilla, which would have been safe to eat.

She understands that sometimes a kitchen has to make substitutions, but stresses that those substitutions need to be communicated to the staff, or the food-allergen program needs to be developed to account for those situations.

Munoz-Furlong believes the restaurant industry has vastly improved over the last four or five years thanks to customers asking about ingredients and operators' awareness of allergy issues. She says nobody expects a restaurant chain to change its whole menu, but that providing information can prevent mistakes. "People know what they can eat. Just let the guests know what's in it," Munoz-Furlong says. It's OK to say I don't know. "The customer would rather choose something else," she says. ■

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B. Legitimate paid and/or requested distribution		
1. Outside-county paid/requested subscriptions stated on PS form 3541	13,756	13,292
2. In-county paid/requested mail subscriptions stated on PS form 3541	0	0
3. Sales through dealers and carriers, street vendors, counter sales and other paid or requested distribution outside USPS	40	53
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4. Nonrequested copies distributed outside the mail	213	0
E. Total nonrequested distribution	3,114	3,080
F. Total distribution	16,910	16,425
G. Copies not distributed	1,111	1,256
H. Total	18,021	17,681
I. Percent paid and/or requested circulation	81.58%	81.25%

16. Publication of Statement of Ownership is required and will be printed in the November 2008 issue of this publication. 17. I certify that all information furnished on this form is true and complete. I understand that anyone who furnishes false or misleading information on this form or who omits material or information requested on the form may be subject to criminal sanctions (including fines and imprisonment) and/or civil sanctions (including civil penalties). Simon Young (signed), Group Audience Marketing Director

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Franchise Developer

Profiles in Growth: Famous Dave's

Working in the family restaurant business helped Anand Gala gain the insight and experience necessary to strike out on his own 10 years ago to form the Gala Corp. Today, the Los Angeles-based company operates 27 units in California and Arizona, including 19 Applebee's, five Famous Dave's and three Del Taco restaurants. The company expects to maintain a consistent growth rate of two to four units per year, with a current focus on building the Famous Dave's brand within its portfolio.

Q: Why focus your expansion efforts on Famous Dave's?

A: Right now it's one of the better performing brands within our portfolio.

It provides superior returns on investment to our other brands, and it's a growing niche. It's amazing how high customer satisfaction is and how warm and positive customer response is when we enter a new location. I think a lot of it has to do with the fact that there's limited national competition, and the brand is differentiated from the rest of casual dining: Everybody says they have a little bit of barbecue on their menu, but Famous Dave's says all we have on our menu is barbecue and barbecue-related items.

Q: How do you maintain steady growth?

A: We consistently look for the best locations possible for the respective concept, to make sure it's a good fit for what we're trying to build. We're currently focused on California, and we're making sure to look for dense markets.

Q: How is today's economy affecting expansion?

A: It's clearly a challenge and a concern. California and Arizona are heavily challenged economically, and within our industry that has had an impact. But as other brands pull back on their growth and/or we start to see more failures of other brands, we look at it as an opportunity to acquire great locations that otherwise would not be available to us. Training is the lifeblood of any organization, and another critical part of this business is the way you maintain the equipment in the facilities you have.

Franchisee Anand Gala says that Famous Dave's is one of the better performing brands in his portfolio. One reason, he says: Limited national competition in the barbecue segment.



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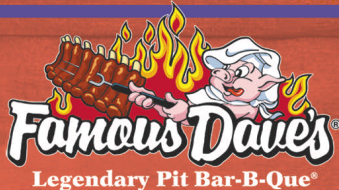
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President and CEO Charlie Morrison has launched a turnaround strategy at Pizza Inn that is designed to improve franchisee profitability and position the chain for expansion.



Staging a Comeback

Pizza Inn's turnaround strategy hones in on operations, customer service and product quality.

Pizza Inn celebrates its 50th anniversary this year. But getting to that milestone has been rough for the 325-unit company, which at one time had about 800 stores. Over the last 15 years, Pizza Inn has seen operational standards and product quality decline and lawsuits distract management, according to President and CEO Charlie Morrison.

With those tumultuous times behind, Morrison has implemented a turnaround strategy that focuses on enhancing operations, customer service and product quality to improve franchisee profitability and position the chain for expansion.

The chain has gone through tough times. How does your turnaround strategy address those problems?

Over the years we had lost focus on what was necessary to be a good restaurant company. And that real focus is operations and taking care of the guests. Our revitalization plan starts first with the customer and addresses the product and the service that we provide to those guests. So we've rolled out recently a back-to-basics program that helps support that.

Can you talk about what the new prototype [launched in October] looks like and how it helps to modernize or push the brand forward?

It does two things. One, it brings back a little bit of nostalgia. So you'll see a warmer Pizza Inn. A little more brick in the interior finishes. You'll see a little bit more of that, a little bit on the exterior. You'll see more of Jo Jo [the pizza-tossing mascot Pizza Inn brought back as part of the turnaround plan].

What you'll see that's more current and exciting is, we will retain our back-fed buffet, but we'll place it in a position that's closer to the kitchen and more efficient to operate. That's one of the challenges that we had with the previous prototype.

The restaurant will be also organized and prepared for delivery and carryout business. Our prior prototype was very focused on the buffet concept only, and we missed an opportunity to generate more delivery sales.

How are you going to improve product quality, and what new products can we expect from Pizza Inn?

Well I can't tell you what the new products will be at this point, but I'll give you a couple of examples. From a quality perspective, we have one new product that's coming out and will be launching here this fall. It's our Chicago deep-dish, thick-crust pizza.

Chocolate Pizzerts have been recent new products that we've introduced. A Pizzert is our pizza dessert, which is in this case a layer of chocolate cake iced and topped multiple different ways to make it into a rocky road, a s'more or other different types of products that consumers can enjoy.

You'll see a lot more R&D coming out of Pizza Inn in the future.

What results have you seen so far since launching these turnaround initiatives?

We just released earnings this week and announced five straight quarters of positive same-store-sales growth and over 2 percent same-store-sales growth for the year last year, which in this economy is a great feat for us to have achieved. ■



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